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Direct Testimony and Schedules
Robert L. Miller

**BEFORE THE OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE
MINNESOTA PUBLIC UTILITIES COMMISSION
STATE OF MINNESOTA**

IN THE MATTER OF AN APPLICATION
OF NORTHERN STATES POWER
COMPANY FOR AUTHORITY TO
INCREASE RATES FOR ELECTRIC
SERVICE IN THE STATE OF MINNESOTA

MPUC Docket Nos. E002/GR-12-961
E002/GR-13-868

IN THE MATTER OF THE REVIEW OF
THE ANNUAL AUTOMATIC
ADJUSTMENT REPORTS FOR ALL
ELECTRIC UTILITIES

E999/AA-13-599
E999/AA-14-579
E999/AA-16-523
E999/AA-17-492
E999/AA-18-373

OAH Docket No. 65-2500-38476

DIRECT TESTIMONY OF

ROBERT L. MILLER

On Behalf of

NORTHERN STATES POWER COMPANY

June 16, 2023

Exhibit____(RLM-1)

Insurance Coverage and Recovery

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Table of Contents

I. Introduction and Qualifications	1
II. Overview of Insurance Program	3
III. Master Property Insurance Program	6
IV. Insurance Recovery Following the November 2011 Event	10
V. Conclusion	12

Schedules

Resume	Schedule 1
March 31, 2015 Filing on Insurance Recoveries	Schedule 2

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I. INTRODUCTION AND QUALIFICATIONS

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert L. Miller. My business address is 414 Nicollet Mall, Minneapolis, Minnesota 55401.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by Xcel Energy Services, the service company subsidiary of Xcel Energy Inc. (XEI) that provides services to other XEI subsidiaries, including Northern States Power Company – Minnesota, d/b/a Xcel Energy (Company or Xcel Energy). I am the Director of Hazard Insurance.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am testifying on behalf of the Company.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have been practicing risk management since 1985. I have served in a risk management role with XEI since 2004, first as a Loss Control Consultant, then beginning in 2006 as Manager, Hazard Insurance. Since 2015, I have served in my current role as Director of Hazard Insurance. In this role, I oversee the Company's property and casualty insurance operations as well as its loss control services.

While at XEI, I have been actively involved with various utility associations, industry mutual insurers and the Risk and Insurance Management Society (RIMS). My resume is included as Exhibit___(RLM-1), Schedule 1.

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1 Q. HAVE YOU PREVIOUSLY TESTIFIED ON INSURANCE ISSUES BEFORE THE
2 MINNESOTA PUBLIC UTILITIES COMMISSION ON BEHALF OF THE COMPANY?

3 A. Yes. I have provided testimony in past Company rate cases, including our most
4 recent electric rate case, Docket No. E002/GR-21-630. The overview testimony
5 I provide in the following section is substantially similar to testimony I or other
6 Company insurance witnesses have provided in the past several rate cases and
7 describes the Company's overall approach to risk management and insurance,
8 both today and prior to the November 2011 event (Event) at the Sherco Unit 3
9 generating plant that is the subject of this docket.

10

11 Q. ARE YOU FAMILIAR WITH THE COMPANY'S RISK MANAGEMENT EFFORTS, LOSS
12 CONTROL PROGRAMS AND INSURANCE POLICIES IN PLACE AT THE TIME OF THE
13 INCIDENT?

14 A. Yes. At the time of the Event, I was in the role of insurance manager and was
15 managing the property insurance program and first party property claims. I was
16 involved with the Event from the time it occurred until the claim was finalized.

17

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

19 A. I address insurance issues related to the November 2011 incident at Unit 3 of
20 the Sherco generating plant. Specifically, I address the Company's overall
21 approach to risk management and property insurance related to our non-nuclear
22 generating plants such as Sherco, the insurance coverage in place at the time of
23 the Event and the Company's insurance recoveries stemming from the Event,
24 all of which have been credited to customers.

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II. OVERVIEW OF INSURANCE PROGRAM

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Q. WHY DOES THE COMPANY NEED INSURANCE?

A. The Company could not provide safe, reliable and cost-effective electric service to ratepayers without insuring the risks associated with delivering that service. The Company takes steps on a continuing basis to ensure that our Insurance Program provides us with proper risk protection necessary to deliver safe, reliable and cost-effective service. While the insurance marketplace has become more challenging in recent years, due to the increase in extreme events such as natural disasters and the associated claims, by insuring potential liabilities rather than the Company itself taking on the risk of liabilities, the associated costs have been more steady, predictable, and capped. In the long term, this has resulted in lower and more consistent rates for our customers.

Q. WHAT IS THE GOAL OF THE COMPANY’S INSURANCE PROGRAM?

A. Our Insurance Program is intended to insure against reasonable risks at cost-effective prices over the long term. Our business is capital intensive, and many of the investments we make to serve our customers are expected to be in-service for many years. Consequently, we must make insurance decisions utilizing a long-term cost and benefit analysis and not simply pursue the cheapest cost option in any given year. By doing so, we ultimately seek to minimize the cost of our risk over time.

Q. HOW ARE THE COMPANY’S INSURANCE PROGRAMS STRUCTURED?

A. The holding company, Xcel Energy Inc., is the holder of all the non-nuclear insurance policies. The operating companies, including the Company, are all

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1 named insureds, so that there is coverage for each entity as needed, as claims
2 arise.

3

4 Q. HOW DO THE COMPANY'S INSURANCE PROGRAMS FIT WITHIN XCEL ENERGY'S
5 OVERALL RISK MANAGEMENT PROGRAM?

6 A. The primary purpose of our risk management program, which has been in place
7 since before the 2011 Event, is to identify, assess, prioritize, and reduce risk to
8 protect the Company. We do this through our Loss Control Program and cost-
9 effective risk transfer utilizing commercial insurance and industry mutual
10 insurance products.

11

12 Q. PLEASE DESCRIBE THE COMPANY'S LOSS CONTROL PROGRAM.

13 A. Our Loss Control Program, both at the time of the Event and today, is a
14 structured process to identify, assess and minimize risks at our power plants.
15 We have engineers in our Risk Management department whose full-time job is
16 to look for opportunities to decrease risks at our power plants. Our engineers
17 make site visits to the plants to identify potential risks; they then prepare reports
18 to share with our plant directors and underwriters who evaluate our risk
19 accordingly. Our insurers trust and rely on our internal engineers and their
20 reports. In fact, our insurers periodically audit our internal processes and
21 confirm that our methods and reports continue to meet their standards.

22

23 Q. IS THE COMPANY'S LOSS CONTROL PROGRAM A UNIQUE APPROACH TO
24 IDENTIFYING RISK?

25 A. Yes. It is my understanding that most companies in our industry rely on the
26 insurance companies or other external third parties to evaluate their risk. Our
27 practice has long been a best-in-class approach, and our prices have reflected

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1 this as we maintained one of the lowest Master Property Insurance rates for
2 comparable utilities, as discussed below.

3
4 Q. HOW DOES THE COMPANY'S LOSS CONTROL PROGRAM COMPLEMENT THE
5 COMPANY'S INSURANCE PROGRAM?

6 A. Although our first priority is to avoid as much risk as possible, there will always
7 remain some level of risk in a company such as ours. Once the known risks
8 have been identified, the next step is to ask whether we want to accept that risk,
9 mitigate that risk, or transfer that risk to an insurance company. The Loss
10 Control Program helps to identify and prioritize the known risk.

11
12 Q. WHAT WOULD CAUSE THE COMPANY TO ACCEPT A RISK AND NOT INSURE
13 AGAINST IT?

14 A. First, not all risks are foreseeable such that we may insure against them. Also,
15 some risks are sufficiently remote that we must utilize prudent business
16 judgment to determine if the long-term costs of insuring against such a risk
17 makes sense for the Company and our customers. Last, some forms of
18 insurance are so expensive or come with such limitations in coverage that they
19 lead us to decide to carry the risk instead of insuring against it.

20
21 For example, we do not have insurance covering our wires, lines, pipes, and
22 poles. This decision is based mostly on the volatility and cost of the insurance
23 and the relatively low risk that a large percentage of the assets will meet with a
24 catastrophic event at any one time. It is more cost effective for the Company to
25 repair and replace these assets as necessary than it is to buy insurance. Our
26 reasons for doing so are primarily related to the difficulty of procuring such

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1 insurance at reasonable costs, as well as the imposition of risk profiles of utilities
2 more prone to natural disasters such as hurricanes on our risk coverage.

3
4 **III. MASTER PROPERTY INSURANCE PROGRAM**

5
6 Q. WHAT RISKS DOES THE COMPANY'S MASTER PROPERTY INSURANCE PROGRAM
7 COVER?

8 A. Our Master Property Insurance Program is intended to insure the Company,
9 and its affiliates, against all risk of direct physical loss of or damage to its non-
10 nuclear generating fleet and other property except for transmission and
11 distribution lines beyond 1,000 feet of insured locations. This program provides
12 coverages for losses such as mechanical breakdown, fire, flood, earth movement
13 and wind to name a few. It is this program that provided coverage for the losses
14 incurred as a result of the 2011 Event at Sherco Unit 3.

15
16 Q. DID THE MASTER PROPERTY INSURANCE PROGRAM PERFORM AS EXPECTED
17 WITH RESPECT TO THE 2011 EVENT?

18 A. Yes. The Event required major restoration efforts. As I discuss further below,
19 the Company worked closely with our insurers through this process and
20 vigorously pursued recovery, ultimately recovering more than \$226 million from
21 our insurers (approximately \$99 million on a Minnesota electric jurisdictional
22 basis), covering all but about \$12.6 million (\$5.5 million on a Minnesota
23 jurisdictional basis) of the costs necessary to return the plant to service. Earlier
24 in these dockets, the Company filed a detailed listing of the recoveries we

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1 obtained, and I have attached that filing as Exhibit____(RLM-1), Schedule 2.¹
2 Company witness Mr. Allen D. Krug discusses the regulatory treatment of those
3 insurance recoveries.

4
5 Q. BUT THE MASTER INSURANCE PROGRAM DID NOT PROVIDE REPLACEMENT
6 POWER COVERAGE. WHY NOT?

7 A. Replacement power coverage has been and continues to be difficult and
8 expensive to obtain, making it more cost effective for the Company and our
9 customers to procure replacement power from the market or other suppliers
10 than to purchase insurance. This is particularly true given the historical
11 infrequency of such events and their typical duration. We do, however, review
12 the availability and pricing of such coverage on a regular basis. Such reviews
13 have indicated that replacement power coverage could be available under very
14 limited circumstances, utilizing very narrow policy terms that we consider to be
15 very expensive given the value they provide for the risks they cover. I note that
16 the coverage that is available generally requires that an outage last 120 days in
17 order for a claim to be covered; that waiting period acts as the insurance policy's
18 deductible.

19
20 If we were to obtain replacement power coverage, we would likely choose to
21 insure only our 20 largest and most critical units. Over the years, the Company
22 has received rough cost estimates from our broker for such coverage and,
23 assuming insurance coverage for our 20 largest units, we have estimated that

¹ Schedule 2 was originally filed as a Non-Public Trade Secret document. The Company includes it here as a public document after receiving agreement from counsel for our insurer, Aegis, that Non-Public treatment was no longer required.

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1 replacement power interruption insurance costs could be **[PROTECTED**
2 **DATA BEGINS**
3 **PROTECTED DATA ENDS]**. In addition, any
4 coverage would likely come with a variety of limitations, such as the waiting
5 period I discussed, above.

6
7 Based on our experience and discussions with brokers, we believed prior to the
8 Event, and continue to believe now, that it is reasonable to decline to purchase
9 replacement power coverage, given the limited practical application for this type
10 of insurance. Had we been able to procure such insurance, our customers would
11 have paid the costs of that coverage every year, totaling between
12 **[PROTECTED DATA BEGINS**

13 **PROTECTED DATA ENDS]** for the time period since Unit 3 went
14 into service in 1987 – costs significantly higher than the estimated replacement
15 power costs related to the Event, as discussed by Company witness Mr.
16 Nicholas J. Detmer.

17
18 Q. ARE YOU AWARE OF OTHER UTILITIES THAT PROCURE REPLACEMENT POWER
19 COVERAGE FOR THEIR FOSSIL FUEL PLANTS?

20 A. No. I am not aware of any other regulated utility that carries replacement power
21 insurance for their conventional fleet, likely due to the limiting terms and the
22 cost. While we continue to carefully evaluate the possibility of obtaining
23 replacement power coverage, we continue to believe that carrying this type of
24 insurance does not make economic sense for the Company or our customers.

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1 Q. YOU SPECIFIED EARLIER THAT THE MASTER PROPERTY INSURANCE PROGRAM
2 COVERS THE COMPANY'S NON-NUCLEAR GENERATING FLEET. HOW ARE THE
3 COMPANY'S NUCLEAR GENERATING ASSETS INSURED?

4 A. We have a separate Nuclear Insurance Program for our nuclear generating
5 assets. Our Nuclear Insurance Program consists of three components: (1)
6 nuclear property damage; (2) nuclear accidental outage; and (3) nuclear liability
7 insurance. Our nuclear property damage insurance is provided by Nuclear
8 Electric Insurance Limited (NEIL) and European Mutual Association for
9 Nuclear Insurance (EMANI), both industry-owned mutual insurers.

10

11 Q. DOES THE NUCLEAR INSURANCE PROGRAM INCLUDE COVERAGE FOR
12 REPLACEMENT POWER COSTS, IN THE EVENT OF AN EXTENDED OUTAGE?

13 A. Yes. Our nuclear business interruption insurance, otherwise called accidental
14 outage insurance, is also provided by NEIL and provides coverage for
15 replacement power costs.

16

17 Q. WHY DOES THE COMPANY HAVE COVERAGE FOR REPLACEMENT POWER
18 RELATED TO ITS NUCLEAR PLANTS, BUT NOT ITS NON-NUCLEAR GENERATING
19 FACILITIES?

20 A. The commercial markets generally exclude anything to do with the nuclear
21 energy hazard. Nuclear plant operators therefore needed to create their own
22 market. The nuclear liability program has evolved over time, has included the
23 business interruption insurance described above, and is currently the only
24 option for nuclear power generation owners. The coverages and coverage limits
25 in the Company's Nuclear Insurance Program are industry standards and the
26 amounts are the maximum reasonably available in the specialized context of
27 nuclear generation.

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IV. INSURANCE RECOVERY FOLLOWING THE
NOVEMBER 2011 EVENT

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4 Q. CAN YOU DESCRIBE THE EFFORTS THE COMPANY TOOK TO ENSURE IT
5 MAXIMIZED ITS INSURANCE RECOVERIES FOLLOWING THE NOVEMBER 2011
6 EVENT?

7 A. The Company worked diligently with our insurers throughout the restoration
8 process. Given the significant magnitude of the costs related to the Event, we
9 believed it prudent to institute a mechanism whereby the Company could be
10 assured that it would recover from its insurers the covered costs of the
11 restoration. To do so, we worked with our insurers to develop a way for
12 potential costs on our claims to be paid on a cash flow neutral basis. Under this
13 mechanism we identified the work we were planning to do, worked
14 cooperatively with our insurers to review the planned work and ensure that it
15 would be covered by our insurers. Our insurers would then make payment to
16 us prior to commencing the planned restoration work. After the work was
17 completed, the payments were trued-up against our actual costs.

18
19 Q. AND WAS THIS APPROACH SUCCESSFUL IN GAINING TIMELY AND FULL
20 RECOVERY?

21 A. Yes. As I discussed above, the Company collected nearly all of the costs
22 necessary to return the plant to service and those insurance proceeds were
23 flowed through to customers as discussed by Mr. Krug. The only unrecovered

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1 costs included items such as the insurance deductible and expediting costs in
2 excess of the policy sublimit on such costs.²

3
4 Q. CAN YOU FURTHER EXPLAIN THE EXPEDITING EXPENSE LIMIT AND WHY THAT
5 IS IN PLACE AND LIMITED THE COMPANY'S RECOVERY?

6 A. Sublimits on a Master Property Insurance Program are standard in the industry.
7 The expediting expense policy sublimit controlled the amount of insurance
8 recovery the Company could obtain for things such as overtime, temporary
9 repairs and other costs of expediting repairs. The sublimit balances the
10 Company's interest in ensuring that any restoration efforts are performed as
11 quickly as possible with our insurers interest in controlling the cost of the claim.
12 Our experience with this policy sublimit in other circumstances indicated that
13 this sublimit was appropriately set. Further, such sublimits were and continue
14 to be consistent with industry standards. Every year through the renewal
15 process the Company conducts a policy review with our broker to determine
16 what additional coverage or levels would be appropriate to obtain given current
17 market conditions. Prior to the November 2011 Event, we had requested
18 enhancements to this policy sublimit. However, the policy sublimit level was all
19 the insurers would agree to provide. Given the size and scope of the restoration
20 efforts related to the Event, the Company was unable to keep our covered costs
21 below this policy sublimit without further significant delays to placing Sherco
22 Unit 3 back in-service.

² In addition, as also discussed by Mr. Krug, the Company filed a lawsuit against GE, the turbine manufacturer, and ultimately negotiated a settlement that resulted in payment by GE to the Company, all of which was also returned to customers.

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V. CONCLUSION

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Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A. At the time of the Sherco Unit 3 Event, the Company had strong risk management and loss control programs in place, as we continue to have today. The Company also had an appropriate Master Property Insurance Program and the Company worked closely with our insurers to see that we and our customers received timely payment for virtually the entire cost of restoration. Consistent with standard industry practice, that program did not provide coverage for replacement power costs. Such coverage, if it had been available, would have come at an extremely high cost to our customers and with strict limitations that would have limited any benefit.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Robert L. Miller, P.E.

Experience	<i>Director, Hazard Insurance</i>	Jan 2015 - Present
	Xcel Energy Inc., Minneapolis, MN	
	<ul style="list-style-type: none">• Direct \$70 million property & casualty insurance program• Lead insurance procurement and property loss control services• Lead multi-line captive insurance program• Lead negotiations on variety of multi-million dollar claims	
	<i>Manager, Hazard Insurance</i>	Nov 2006 – Jan 2015
	Xcel Energy Inc., Minneapolis, MN	
	<ul style="list-style-type: none">• Established “best in class” property loss control program• Managed staff of 5 insurance and loss control professionals	
	<i>Loss Control Consultant</i>	Jul 2004 – Nov 2006
Education	Xcel Energy Inc., Minneapolis, MN	
	<ul style="list-style-type: none">• Advised corporation on Property and Mechanical exposures	
	<i>Loss Control Manager</i>	May 2001 – Jul 2004
	NRG Energy, Inc., Minneapolis, MN	
	<ul style="list-style-type: none">• Advised corporation on Property and Mechanical exposures	
	<i>Environment, Health & Safety Eng</i>	Apr 1997 – May 2001
	Cargill, Inc., Minnetonka, MN	
<ul style="list-style-type: none">• Technical resource for property loss control and personnel safety		
<i>Loss Control Engineer</i>	Jun 1985 – Apr 1997	
FM Global, Minneapolis, MN		
<ul style="list-style-type: none">• Provided loss control services for insureds		
<i>Master of Business Administration</i>	May 2012	
Emphasis – Finance		
University of St. Thomas, St. Paul		
<i>Bachelor of Science</i>	May 1985	
Major – Chemical Engineering		
SDSM&T, Rapid City		

Professional

Associate in Risk Management
Licensed Professional Engineer, State of Minnesota

Associations

Edison Electric Institute 2006 - Present
Risk Management Committee

Nuclear Electric Insurance Limited 2006 - Present
Insurance Advisory Committee

Risk & Insurance Management Society 2004 - Present
Minnesota Chapter

Associated Electric and Gas 2016 - Present
Insurance Services
Risk Management Advisory Committee

Presentations

Have given numerous presentations to industry conferences on topics including risk management, claims and insurance coverage



414 Nicollet Mall
Minneapolis, Minnesota 55401

March 31, 2015

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—Via Electronic Filing—

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: SHERCO 3 COMPLIANCE FILING – FINAL REPORT
DOCKET NO. E002/GR-13-868
DOCKET NO. E002/GR-12-961

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this Sherco 3 Insurance Recovery Update consistent with our commitment to update the Commission in our December 31, 2013 Compliance Filing in the above referenced Dockets.

Our quarterly Insurance Recovery Updates have provided updated accounting and costs and insurance recoveries associated with the November 19, 2011 Event at the Sherburne County Generating Station Unit 3 (Sherco 3). We have now completed final project closeout activities, completed negotiations, and have finalized all aspects of the claim with our insurers. As such, this is our final compliance report in which we provide the final Restoration Project costs and insurance cost recovery information.

Trade Secret Justification

While the Company's claim amounts discussed in this filing represent actual amounts of costs incurred as of the date of the claim, insurance treatment of costs in dispute or under review is subject to further discussion between the Company and our insurers, and may change. In addition, our ability to negotiate with our insurers and resolve our claims in a manner that benefits our customers may be hampered if this information or our view of the insurers' treatment of various costs became publicly available. We have therefore

categorized cost and current coverage information contained in this filing and the accompanying attachment as trade secret under Minn. Stat. 13.37(1)(b).

We have electronically filed this document with the Minnesota Public Utilities Commission, and notice of the filing has been served on the parties on the attached service list.

Please contact me at bria.e.shea@xcelenergy.com or 612-330-6064 if there are any questions regarding this filing.

Sincerely,

/s/

Bria E. Shea
Manager, Regulatory Affairs

Enclosures
cc: Service List

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INFORMATION - NONPUBLIC DATA~~

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE APPLICATION OF
NORTHERN STATES POWER COMPANY, A
MINNESOTA CORPORATION, FOR
AUTHORITY TO INCREASE RATES FOR
ELECTRIC SERVICE IN MINNESOTA

Docket No. E002/GR-13-868
Docket No. E002/GR-12-961

**FINAL REPORT
SHERCO 3 INSURANCE RECOVERY**

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits this final report on our Sherco 3 Insurance Recovery costs of the Sherburne County Generating Station (Sherco 3) restoration project (Restoration project, or the Project) consistent with our commitments in our December 31, 2013 compliance filing in this Docket.

INSURANCE RECOVERY UPDATE

As required by Order Point 9 of the Commission’s Order in our 2012 electric rate case (Docket No. E002/GR-12-961) we have submitted compliance filings on a quarterly basis since December 2013 providing information updating the status of the Restoration project, pending litigation with respect to the root cause of the Event, updated forecasts for total costs of the Restoration project, and an update for insurance recovery of the restoration costs.

As discussed in detail in our 2013 rate case (Docket No. E002/GR-13-868), the restoration of Sherco 3 following the catastrophic event of November 19, 2011 (Event) was one of the largest repair efforts ever undertaken in the industry.

Our insurance claim was large and complex, involving multiple carriers. We worked with our insurers to ensure cash flow from our insurers while the Restoration project was underway, and our claim evolved as we trued up actual expenditures through monthly reports to our insurers.

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INFORMATION - NONPUBLIC DATA**~~

We have now completed final project closeout activities, completed negotiations, and have finalized all aspects of the claim with our insurers. As such, this update provides the final Restoration Project costs and insurance cost recovery information. We believe we incurred costs in a prudent manner that appropriately balanced the short- and long-term needs of the plant with our insurance coverage.

I. Background

In November of 2011, Sherco 3 was in the process of turbine testing while returning to service after a scheduled maintenance overhaul outage. During this process, there was a failure of the root of certain blade attachments in one of the Unit 3 low pressure turbines, due to stress corrosion cracking resulting from a design flaw. As described in more detail in the Direct Testimony of Company witness Mr. Ronald L. Brevig in our current rate case, the extensive damage resulting from this Event included vibration damage, flying debris, impact damage, contamination, fire and smoke damage, and metallurgical damage that extended from surface areas to the internal portions of equipment, structures, and systems. Following the Event, we undertook a strategic review of the impacts of the Event on Sherco 3 and developed a strategy to bring the Unit back to its pre-Event condition as quickly and safely as possible, to minimize the overall impact on our customers. Given the severity of the Event, the Restoration project ultimately required approximately 22 months.

Sherco 3 was synchronized to the electric grid producing energy and was considered returned to service on September 4, 2013. We then took the Unit offline on September 7 for an outage to address certain post-restoration items, and re-synchronized on October 10, 2013. The Unit released for MISO dispatch on October 28, 2013. Sherco Unit 3 continues to operate well.

II. Sherco 3 Litigation

As discussed in our previous compliance filings, on November 15, 2013, the Company, Southern Minnesota Municipal Power Agency, and insurers of Sherco 3 filed a joint complaint against General Electric entities to recover costs associated with the Event. On January 27, 2014, the plaintiffs to the case, including the Company, amended the complaint in response to a motion by the defendants that we make more definitive statements regarding some of our claims. The defendants have since moved to dismiss the complaint on various legal grounds. A hearing on the motion to dismiss was held on April 17, 2014 and denied on May 6, 2014. Consequently, the litigation will continue. In the interim, the parties have been conducting discovery.

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III. Final Restoration Cost Summary

In our 2013 rate case, we provided an analysis and report on the Sherco 3 total costs, insurance recoveries, and costs not covered by insurance as required by Order Point 9 through the Direct Testimony of Mr. Brevig (Sherco 3), Mr. Michael R. Anderson (insurance), Ms. Amy L. Stitt (accounting for insurance proceeds), and Ms. Lisa H. Perkett (remaining life of Sherco 3). We provided quarterly updates of this information for each quarter since our December 31, 2013 compliance filing. As of March 31, 2015, we have closed out work and completed settlement negotiations with our insurers.

In our initial rate case filing, Mr. Brevig noted that the total cost of the Restoration Project was estimated to be ~~[TRADE SECRET BEGINS \$244 million TRADE SECRET ENDS]~~. Our final Restoration project cost is ~~[TRADE SECRET BEGINS approximately \$238.9 million TRADE SECRET ENDS]~~. A summary of these costs is set forth in Table 1.

Table 1: Final Restoration Project Cost Summary

~~[TRADE SECRET BEGINS~~

<i>Category</i>	<i>Cost (\$ millions)</i>
<i>Equipment Repair/Replacement Purchase Orders</i>	<i>134.8</i>
<i>Construction Contracts</i>	<i>71.5</i>
<i>Indirect Costs</i>	<i>20.0</i>
<i>Sub Total</i>	<i>226.3</i>
<i>Non-Insurance Reimbursable Costs</i>	<i>12.6</i>
<i>Total Project Costs</i>	<i>\$238.9</i>

~~TRADE SECRET ENDS]~~

A breakdown of these costs is provided in Attachment A to this filing.

The Company also requested reimbursement from the insurance companies for the excess fuel oil that was consumed during the initial startup of the unit following repairs. The insurance companies agreed to reimburse the Company for ~~[TRADE SECRET BEGINS \$894,000 TRADE SECRET ENDS]~~ for the excess fuel oil. This amount is not included in the cost data above or on Attachment A. Of this amount, the Company's 59 percent share is ~~[TRADE SECRET BEGINS \$527,000 (NSP Share \$385,000) TRADE SECRET ENDS]~~ when allocated to the Minnesota jurisdiction) and it will be

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refunded to the Customers through the fuel clause adjustment. The Company plans to refund this reimbursed amount¹ to customers through the monthly fuel clause charge in May 2015.

IV. Updated Insurance Coverage Report

A. Insurer Coverage to Date

As noted in previous filings, the cost recovery process we developed with our insurers involved advance assessment of scope of work and costs to be incurred for each phase of the Restoration project, followed by monthly reports detailing our actual costs incurred and associated claims for insurance coverage. As a result of this collaborative process, we obtained coverage and agreement on the large majority of costs incurred.

B. Costs Not Covered by Insurance

As evidenced below in Table 2, we included ~~[TRADE SECRET BEGINS \$15 million (NSP Share \$8.9 million) TRADE SECRET ENDS]~~ in our 2013 test year for costs than we anticipated would not be covered by insurance. However, due to our collaborative process and favorable negotiations, we received slightly more coverage and the final amount not covered by insurance is ~~[TRADE SECRET BEGINS \$12.6 million (NSP Share \$7.4 million). Thus, we received \$2.4 million (NSP Share \$1.5 million) more TRADE SECRET ENDS]~~ than anticipated at the time of our rate case preparations. We will include this amount in our upcoming capital true up in the 2013 Minnesota electric rate case (Docket E002/GR-13-868).

In Mr. Brevig's Direct Testimony, we identified seven categories of these costs. Our final costs for each category are set forth below:

Table 2: Cost Categories Not Covered By Insurance

~~[TRADE SECRET BEGINS:~~

<i>Cost Category</i>	<i>Direct Testimony Estimate</i>	<i>Final Cost</i>
<i>Insurance Deductible</i>	<i>\$1.5 million (NSP Share \$0.9M)</i>	<i>\$1.5 million (NSP Share \$0.9M)</i>
<i>Disputed Items</i>	<i>\$3 million (NSP Share \$1.8M)</i>	<i>\$0.0</i>

¹ Consistent with the Company's fuel clause mechanism in Minnesota, the amount for a one-time refund is based on the jurisdictional MWh sales weighting to NSP System total. This reimbursed amount and refund is based on 2014 MWh sales weighting of 73.0489% applied to the Company's share.

~~**NONPUBLIC DOCUMENT: CONTAINS TRADE SECRET
INFORMATION - NONPUBLIC DATA**~~

<i>Cost Category</i>	<i>Direct Testimony Estimate</i>	<i>Final Cost</i>
<i>Capital Improvements</i>	<i>\$1.5 million (NSP Share \$0.9M)</i>	<i>\$0.0 (Combined with Policy Exclusions below)</i>
<i>Expediting Expense Cap</i>	<i>\$6 million (NSP Share \$3.5M)</i>	<i>\$10.0 million (NSP Share \$5.9M)</i>
<i>Policy Exclusions</i>	<i>\$2 million (NSP Share \$1M)</i>	<i>\$1.1 million (NSP Share \$0.7M)</i>
<i>Miscellaneous</i>	<i>\$1 million (NSP Share \$0.6M)</i>	<i>\$0.0 (NSP Share \$0.0M)</i>
<i>Total</i>	<i>\$15.0 million (NSP Share \$8.9M)</i>	<i>\$12.6 million (NSP Share \$7.4 M)</i>

~~**TRADE SECRET ENDS**~~

As indicated above, the changes in costs estimates reflect final insurance settlement negotiations which were more favorable to the Company than previous estimates.

The policy exclusions line item in this table includes amounts for capital improvements, adjustments due to cause and other adjustments including the corrections for the final settlement of costs.

CONCLUSION

We appreciate the opportunity to keep the Commission informed of our Sherco 3 Restoration project costs and insurance coverage. All of the work orders have been closed out. We no longer have ongoing meetings or negotiations with our insurance provider, and the final settlement amount has been determined. As such, this is our final report.

March 31, 2015



NON-PUBLIC DOCUMENT- CONTAINS TRADE SECRET INFORMATION --NONPUBLIC DATA

Docket No. E002/GR-13-858
Docket No. E002/GR-12-961
Attachment A, Page 1 of 1

**Sherco 3 Restoration
Final Project Cost**

	Initial Forecast Estimate At Aug. 31, 2013	Final Cost at Completion	Difference Aug. 2013 to Final
Description			
Trade Secret Begins			
EQUIPMENT REPAIR/REPLACEMENT P.O.'s			
Generator Field	\$9,389,589	\$8,478,774	\$ 910,815
Generator Stator	\$13,255,978	\$13,952,751	\$ (696,773)
LP Steam Turbine Components	\$77,092,620	\$74,083,873	\$ 3,008,747
HP/IP Steam Turbine Components	\$8,164,523	\$8,403,175	\$ (238,652)
Condenser Tubes	\$2,499,809	\$2,499,809	\$ -
Exciter (Alterrex)	\$3,363,746	\$3,412,565	\$ (48,819)
BOP Contracts	\$3,295,364	\$4,552,452	\$ (1,257,088)
HP/IP Steam Turbine Replacement	\$20,159,106	\$19,462,109	\$ 696,997
Totals	\$ 137,220,735	\$ 134,845,508	\$ 2,375,227
CONSTRUCTION CONTRACTS			
Turbine Generator Disassembly	\$3,795,255	\$3,784,455	\$ 10,800
Plant Layups (Special Construction/Maintenance)	\$176,112	\$187,608	\$ (11,496)
Turbine Assembly	\$24,316,222	\$26,020,161	\$ (1,703,939)
Electrical Construction/Repairs/Cleaning	\$3,930,590	\$3,731,272	\$ 199,318
Cleaning (Interstate and Special Construction)	\$8,192,167	\$8,154,360	\$ 37,807
Condenser Retubing	\$6,262,207	\$3,802,884	\$ 2,459,323
BOP Mechanical Construction/Repairs	\$16,206,524	\$17,916,328	\$ (1,709,804)
Scaffolding	\$7,679,836	\$7,905,269	\$ (225,433)
Totals	\$ 70,558,913	\$ 71,502,337	\$ (943,424)
INDIRECTS			
A/E Services	\$2,951,101	\$2,549,718	\$ 401,383
Project Management	\$4,491,396	\$4,716,404	\$ (225,008)
OEM Field Engineers/Technical Advisors	\$8,813,695	\$9,487,340	\$ (673,645)
Construction Management	\$911,644	\$912,563	\$ (919)
Site Services	\$2,276,328	\$2,342,468	\$ (66,140)
Other Xcel Departments/Resources	\$6,686,009	\$6,704,053	\$ (18,044)
Project Startup / Commissioning	\$497,234	\$475,701	\$ 21,533
Insurance Adjustments, Overheads, Credits, P-Loads	(\$4,835,615)	(\$7,193,021)	\$ 2,357,406
Totals	\$ 21,791,792	\$ 19,995,226	\$ 1,796,566
TOTAL REIMBURSABLE COST			
	\$ 229,571,440	\$ 226,343,071	\$ 3,228,369
NON-REIMBURSABLE COSTS			
Insurance Deductible	\$ 1,500,000	\$ 1,500,000	\$ -
Disputed Items	\$ 3,126,000	\$ -	\$ 3,126,000
Capital Improvements*	\$ 1,478,000	\$ -	\$ 1,478,000
Expediting Expense	\$ 6,000,000	\$ 9,968,522	\$ (3,968,522)
Cause*	\$ 2,000,000	\$ 1,114,336	\$ 885,664
Miscellaneous	\$ 1,000,000	\$ -	\$ 1,000,000
			\$ -
			\$ -
TOTAL NON-REIMBURSABLE COST			
	\$15,104,000	\$12,582,858	\$ 2,521,142
TOTAL PROJECT COST			
	\$244,675,440	\$238,925,929	\$ 5,749,511

* Note that Cause and Capital Improvements are combined for Feb 2015 report

Trade Secret Ends